

Message Text

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ACTION EB-03

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 3728

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 1019

LIMDIS

PASS TREASURY DEPARTMENT FOR PETER SUCHMAN

E.O.11652: GDS

TAGS: EFIN, ETRD, BR

SUBJECT: BRAZILIAN REACTION TO COUNTERVAILING DUTY DECISION
ON LEATHER HANDBAGS

REF: STATE 22859

1. SUMMARY: THE GOB EXPECTS TO FORWARD DATA ON
CASTOR OIL PRODUCTS FOR COUNTERVAILING DUTY
INVESTIGATION SHORTLY. DORNELLES OF FINANCE MINISTRY
HAD TOLD EMBASSY HE IS EXTREMELY UNHAPPY WITH LEATHER
HANDBAG DECISION. EMBASSY BELIEVES STRONGLY THAT IT WOULD
BE USEFUL FOR TREASURY TO WRITE HIM A LETTER
EXPLAINING THE HANDBAG DECISION. END SUMMARY.

2. YESTERDAY AFTERNOON (FEBRUARY 3) FINATT MET WITH
FRANCISCO DORNELLES OF BRAZILIAN FINANCE MINISTRY
PRIMARILY TO DISCUSS THE TIMING OF THE SUBMISSION OF

DATA ON THE PENDING COUNTERVAILING DUTY INVESTIGATION
ON CASTOR OIL PRODUCTS (AS REQUESTED CRFTEL). AFTER
A BRIEF EXCHANGE ON THIS SUBJECT, DURING WHICH DORNELLES
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SAID THAT THE DATA IS ALMOST COMPLETE AND WILL BE

FORWARDED SHORTLY, THE CONVERSATION TURNED TO THE RECENT DECISION ON LEATHER HANDBAGS. DORNELLES WAS VISIBLY UPSET WITH THE WAY THE HANDBAG DECISION CAME OUT, AND EXPRESSED RESERVATIONS ABOUT THE USEFULNESS OF FUTURE COOPERATION WITH TREASURY. HE SAID, IN VERY EMOTIONAL TONES, THAT THE TREASURY HAD OBVIOUSLY IGNORED THE BOB SUBMISSION IN THE IMPOSITION OF THE 14 PERCENT ADDITIONAL DUTY. HIS OWN CALCULATION, HE MAINTAINED, WHICH INVOLVED TAKING A WEIGHTED AVERAGE OF THE UTILIZATION RATES ON THE 10 FIRMS SUBMITTED, INDICATED THAT THE RATE SHOULD HAVE BEEN 11 PERCENT. HE FELT THE WAY TREASURY CALCULATED THE RATE, BY TAKING THE AVERAGE OF ONLY THE THREE LARGEST FIRMS, WAS A DEPARTURE FROM THE METHODOLOGY USED IN THE SHOE CASE. FINATT EXPLAINED THAT THE DECISION DID INCLUDE A MITIGATING FACTOR BY ALLOWING THOSE FIRMS WHICH FELT THAT A LOWER RATE SHOULD BE APPLIED TO MAKE AN OFFICIAL REQUEST FOR SUSPENSION OF LIQUIDATION AND, IF THEY DEMONSTRATE A LOWER RATE ON THE BASIS OF THE 1976 PERFORMANCE, A REBATE WOULD BE GRANTED. DORNELLES FELT THAT THIS WAS UNSATISFACTORY. HE ARGUED THAT THE RATE SHOULD HAVE BEEN SET ON THE BASIS OF HISTORICAL EXPERIENCE AND NOT FUTURE PERFORMANCE AND THAT, IN THIS RESPECT, TREASURY'S METHODOLOGY REPRESENTED A DEPARTURE FROM THAT USED IN THE SHOE CASE. HE WAS DISTURBED BY THE FACT THAT HE HAD NOT BEEN GIVEN ANY INDICATION DURING HIS PERSONAL DISCUSSIONS WITH TREASURY THAT THE DECISION WOULD GO THIS WAY.

3. DORNELLES THEN RAISED THE GENERAL QUESTION OF FUTURE COOPERATION WITH TREASURY, AND SAID THAT HE IS SERIOUSLY CONSIDERING LETTING TREASURY HANDLE ALL FUTURE CASES THROUGH THE FOREIGN MINISTRY. IN ADDITION TO WHAT HE PERCEIVED AS TREASURY'S FAILURE TO TAKE FULLY INTO ACCOUNT BRAZILIAN VIEWS, HE COMPLAINED THAT THE U.S. WAS OVERWHELMING BRAZIL WITH TRADE COMPLAINTS: HE MENTIONED SPECIFICALLY THE ITC INVESTIGATION ON SHRIMP, SPECIAL STEELS AND SHOES. CONFIDENTIAL

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AFTER FINATT INDICATED THAT TREASURY APPRECIATED HIS COOPERATION AND HAD ENTERED INTO DISCUSSIONS WITH THE MINISTRY OF FINANCE IN GOOD FAITH, DORNELLES SAID, QUITE FRANKLY, THAT PERHAPS IT WOULD BE BETTER NOT TO COOPERATE FURTHER, TO LET TREASURY IMPOSE THE THEORETICAL RATES AND TO BRING "CHAOS" IN OUR TRADE RELATIONS. AT THIS POINT DORNELLES WAS VISIBLY BITTER AND SAID THAT MAYBE THE FOREIGN MINISTRY WAS CORRECT IN THE FIRST PLACE

WHEN IT OPPOSED THE FINANCE MINISTRY'S ADOPTING A
COOPERATIVE ATTITUDE TOWARD THE U.S. ON TRADE ISSUES.

4. FINATT TOLD DORNELLES THAT HE UNDERSTOOD
SECRETARY SIMON AND FINANCE MINISTER SIMONSEN
HAD MET IN JAMAICA AND THAT ACCORDING TO HIS
INFORMATION SIMONSEN HAD NOT EXPRESSED SIMILAR
SENTIMENTS TO SECRETARY SIMON. DORNELLES OPINED
THAT IT IS NO USE COMMUNICATING WITH SECRETARY
SIMON SINCE THE "TREASURY MACHINE" SEEMS TO HAVE
A MOMENTUM OF ITS OWN, OPERATING INDEPENDENT OF
SIMON. DORNELLES WAS NOT ABOUT TO BE PERSUADED
OTHERWISE.

5. ACTION REQUESTED: IN LIGHT OF DORNELLES' EMOTIONAL
OUTBURST, THE EMBASSY BELIEVES STRONGLY THAT IT WOULD BE
USEFUL FOR TREASURY (PERHAPS SUCHMAN) TO WRITE
HIM A LETTER EXPLAINING THE REASONING BEHIND THE
HANDBAG DECISION. SUCH A GESTURE, WE BELIEVE, WOULD
"COOL DOWN" DORNELLES SINCE WE ASSUME
TREASURY'S POSITION CAN BE DEFENDED. DORNELLES IS A VERY STRONG
VOICE BOTH IN THE FINANCE MINISTRY AND IN INTERAGENCY FORA,
AND WE SHOULD DO EVERYTHING WE CAN TO TRY TO DISSUADE
HIM FROM SOME OF HIS VIEWS.
CRIMMINS

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